

This record is a partial extract of the original cable. The full text of the original cable is not available.

081536Z Oct 03

UNCLAS SECTION 01 OF 02 ANKARA 006342

SIPDIS

SENSITIVE

STATE FOR E, EB/IFD, AND EUR/SE  
TREASURY FOR OASIA - MMILLS AND JLEICHTER  
NSC FOR MCKIBBEN AND BRYZA

E.O. 12958: N/A

TAGS: [EFIN](#) [PGOV](#) [TU](#)

SUBJECT: NO AGREEMENT WITH IMF LIKELY UNTIL AT LEAST NEXT WEEK

REF: A. ANKARA 6269

[B](#). ANKARA 6241

[11](#). (Sbu) Summary: IMF Resident Representative told Econoffs October 8 that the Fund Mission is highly unlikely to wrap up agreement on the Sixth Review until early next week at the earliest. Though the Turkish economic team had a long meeting with the Prime Minister October 7 on the IMF issues, the P.M. has not taken the decisions needed on difficult issues like the direct tax reform and the budget. Further complicating efforts to get to agreement are Minister Babacan's planned trip to London October 9, the AK party Congress on October 12, and the bullishness of the markets. End Summary.

[12](#). (SBU) In a meeting the afternoon of October 8, IMF Resident Representative Odd Per Brekk and Deputy ResRep Christoph Klengen updated econoffs on the state of play with the IMF mission. Though the mission has had its ups and downs, there has not been significant progress since Mission Chief Reza Moghadam briefed USG officials on October 6. The one significant step forward is that the Turkish economic team had an opportunity to meet with Prime Minister Erdogan the evening of October 7. According to Brekk, the P.M. did not take any decisions. On the Fund's compromise proposals for Direct Tax Reform, however, the P.M. said he wanted to be sure and include Trade Minister Tuzmen--a strong defender of Free Trade Zone tax exemptions--in the discussion.

[13](#). (SBU) On the budget issues, Brekk said they still have a 0.7 percent of GDP gap for 2004 between measures agreed and revenues needed to achieve the 6.5 percent target. Even to get to this level, the GOT and Fund had to retain the earthquake tax, special consumption tax and fund levy. Though none of these were desirable taxes from the Fund's perspective they were needed to reach the target. The 0.7 percent gap includes 0.2 percent resulting from the Constitutional Court's decision yesterday to strike down for the second time the supplementary motor vehicle tax. Though there is still a small gap on the 2003 numbers this is less of a problem than the 2004 budget.

[14](#). (SBU) On financial sector issues, Brekk said the GOT had reasonable proposals to deal with the Imar Bank case. On Pamuk Bank, it will cost \$1.1 Billion to recapitalize the bank and the GOT needs to find a way to take about \$1.7 billion in non-marketable government securities off of Pamuk's balance sheet before sale. There are reportedly two bidders: Finansbank and a foreign individual without banking experience, so the GOT has concerns about these candidates. On the privatizations and restructuring of Vakif Bank and Halk Bank there was not much progress.

[15](#). (SBU) Regarding the target for elimination of redundant employees at State Economic Enterprises, Brekk and Klengen confirmed that the GOT had missed the 19,000-employee end-September target by about 7,500 employees. As Fund officials had explained previously, however, the GOT-Fund solution is to introduce a new law increasing the severance payment for retirements that take place by year-end. This seems to be moving forward. Brekk said the GOT is still confident it will attain the 25,000-employee year-end target.

[16](#). (SBU) One disappointing development has been a new delay on the Public Financial Management and Control Law. Whereas Fund staff and the GOT had reached agreement on a text, now the GOT wants to take the additional step of reviewing how

this law meshes with the GOT's new thinking on a broader law on public sector reform. Brekk said Finance Minister Unakitan expressed confidence that this new step will only take a couple of weeks, allowing the law to be introduced before the IMF board considers the Sixth Review. On the law to strengthen the BRSA, the Fund was negotiating with the GOT on the details of a new judicial body that would handle all cases arising from BRSA actions. The GOT had now extended the scope of this body to all independent regulatory bodies. The IMF lawyer on the mission's initial reaction to the latest GOT proposals was that there might be significant issues for the Fund.

17. (SBU) The Bank-Fund project to find ways of reducing Bank intermediation costs is running up against the need for tax revenue, according to Brekk, such that the phase-in of lower taxes on banks would have to be slow. When econoffs asked about how the Fund would tackle the broader problem of high taxation on the formal sector, Brekk said a technical mission on this very issue would be coming later this Fall, but that it was a difficult problem.

18. (SBU) Brekk said the Turk Telekom privatization plan appears likely to be approved by the end of October, satisfying a key Sixth Review condition. Though he said we should check this detail out with the World Bank, Brekk thought that the Turkish law on telecoms only allowed for the liberalization of fixed telephony when Turk Telekom is privatized, rather than at a fixed date.

19. (SBU) With Babacan planning to go on a trip to London the evening of October 9, and an AK Party conference to be held on October 12, Brekk doubted the GOT would reach agreement with the Mission before early next week. Key members of the Mission are likely to stay in Ankara beyond this week in hopes of clinching a deal. Though a number of issues remain unresolved, things could change quickly. Brekk thought the imminent party congress made it harder for high-level decisions on controversial issues, and the bullishness of the markets meant there was less pressure for a deal with the Fund.

EDELMAN